

UNITED STATES DEPARTMENT OF AGRICULTURE  
Rural Electrification Administration

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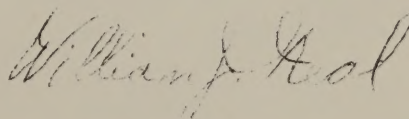
Administrative Memorandum

SUBJECT: Statement of Policy with Respect to Payment of Unemployment  
Compensation Taxes by Cooperatives Organized Under Acts  
Containing Provisions Exempting Them from Excise Taxes

In many states cooperatives are organized under an act which contains a provision exempting them from all excise taxes. In several of these states the courts or state officials have held that since unemployment compensation contributions are excise taxes the cooperatives are not liable for state unemployment taxes. Similar rulings are likely to be made in the other states having acts containing such a provision.

The value of such an exemption is questionable. Although payment of the tax involves some expense and inconvenience occasioned by filing returns, considerations of social policy and employer-employee relationships may make it worth while for an employer to pay the tax. State laws permit an employer not otherwise liable for the tax to elect to comply with the law and make voluntary contributions. A cooperative subject to the Federal tax would certainly want to pay the state tax because the Federal Act allows a credit for amounts paid to the state and because unemployment benefits are payable only out of state funds. In such cases voluntary compliance should be recommended.

Inasmuch as the cooperatives organized under an act exempting them from excise taxes may legally be entitled to exemption from the unemployment compensation tax they should be advised of their rights in the matter but at the same time their attention should be called not only to the possibility but also to the advantages of voluntary compliance. The final decision should be left to the cooperatives and a definite recommendation to comply should be made only in cases of cooperatives subject to the Federal tax.



Acting Administrator

